

Auditor-General of South Africa

Hlabisa Municipality - Audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Hlabisa Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Hlabisa Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hlabisa Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Going concern

8. Note 44 to the financial statements indicates that the municipality has unspent conditional grants that are not cash backed during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its total assets by R11,8 million (2015: R10,4 million). These conditions, along with other matters as set forth in note 44 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Subsequent events

9. As disclosed in note 35 of the financial statements, the Hlabisa Municipality merged with the Big 5 False Bay Municipality after the local government elections to form the Big 5 Hlabisa Municipality. This arose due to a redetermination of boundaries in terms of section 21 of the Local Government: Municipal Demarcation Act of South Africa, 1998 (Act No. 27 of 1998). Consequently, Hlabisa Municipality ceased to exist from 9 August 2016.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for Basic service delivery and infrastructure development as well as Local economic development and social development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development priorities are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

Consistency of objectives

Reported objectives not consistent with planned objectives

18. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 29% of the reported objectives were not consistent with those in the approved IDP.

Reliability of reported performance information

19. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. For 14% of indicators, the reported achievements against planned targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets for 14% of indicators were not reliable when compared to the evidence provided.

Local economic development and social development

Usefulness of reported performance information

Consistency of objectives

Reported objectives not consistent with planned objectives

20. Section 41(c) of the MSA requires the IDP to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 83% of the reported objectives were not consistent with those in the approved IDP.

Measurability of indicators

Performance indicators not well defined and verifiable

21. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 50% of the indicators were not well defined.
22. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 50% of the indicators were not verifiable.

Reliability of reported performance information

23. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matter

24. I draw attention to the following matter:

Achievement of planned targets

25. The annual performance report on pages x to x which includes information on the achievement of the planned targets for the year should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 18 to 23 of this report.

Compliance with legislation

26. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

27. The amendments to the IDP was not adopted by the council only after the proposed amendment has been published for public comment as required by Municipal planning and performance management regulation 3.

28. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
29. The annual performance report for the year under review did not include a comparison with the previous financial year as required by section 46 (1)(c) of the MSA.

Annual financial statements

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

31. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
32. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence Management

35. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Internal control

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

37. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with legislation. In this regard, the accounting officer did not ensure the policies and procedures were appropriately implemented to support the achievement of credible reporting and compliance with

legislative requirements.

Financial and performance management

38. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information as evidenced by the material misstatements identified in the annual financial statements and material findings on the annual performance report. This was due to management not fully understanding the requirements of the financial and performance reporting frameworks.

Auditor General

Pietermaritzburg

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

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